



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

ENERGY

IN THE MATTER OF THE PETITION OF NEW JERSEY)	
NATURAL GAS COMPANY FOR THE ANNUAL REVIEW)	
AND APPROVAL OF ITS BASIC GAS SUPPLY SERVICE)	ORDER ADOPTING
(BGSS), GAS COST RECOVERY (GCR) FACTOR FOR)	INITIAL DECISION
F/Y 2004)	DOCKET NO. GR03050340

(Service List Attached)

BY THE BOARD:

On May 1, 2003, New Jersey Natural Gas Company ("NJNG" or "Company") filed its annual reconciliation petition with the Board, for its 2003-2004 Basic Gas Supply Service ("BGSS") gas cost recovery, and requested to increase the Company's Gas Cost Recovery ("GCR") factor within the BGSS rate applicable to residential and small commercial and industrial customers, from \$0.2745 per therm after tax to \$0.3617 per therm after tax, effective July 1, 2003. The overall increase requested is approximately 8.8% for the average residential customer.¹

On June 23, 2003, the Board transmitted the Company's petition to the Office of Administrative Law ("OAL") as a contested case for assignment to an Administrative Law Judge ("ALJ"). The Honorable Douglas H. Hurd was assigned to hear the case and issue an Initial Decision.

On July 7, 2003, the Company updated its May 1 filing to account for a significant increase in the wholesale market price of natural gas, assertedly occasioned by the combination of cold weather experienced in the Northeast during the winter period, the potential for hot weather in the summer; seasonal hurricanes, and an increasing demand for gas-fired electric generation.

¹ The Company's May 1 filing also included testimony, schedules and data that are responsive to and consistent with the Minimum Filing Requirements ("MFRs") for BGSS filings established in the April 24, 2003 Settlement Agreement between NJNG, the Division of the Ratepayer Advocate and Board Staff.

At the same time, the Company indicated it was in a position to reduce its Weather Normalization Clause ("WNC") recovery rate, as proposed in Docket No. GR03040318, earlier than previously anticipated, as a result of higher WNC-related recoveries during the 2002-2003 winter². The Company accordingly proposed to increase its after-tax GCR factor from \$0.2745 per therm to \$0.3801 per therm, and to decrease its after-tax WNC rate from \$0.0184 to \$0.0000 per therm, effective August 1, 2003. This simultaneous adjustment maintained the same overall proposed average annual price increase for residential sales customers of 8.8% as referenced in the original May 1 filing.

On July 11, 2003, the Company filed with the Board an Emergent Motion asking that the Board direct the OAL to return to the Board that portion of the above referenced BGSS filing necessary to permit expeditious Board action on the requested price change portion, and requesting that the Board authorize NJNG to increase the Gas Cost Recovery factor within the BGSS rate applicable to residential and small commercial and industrial customers on a provisional basis, subject to refund, and simultaneously decrease the WNC recovery rate, which simultaneous price adjustments would result in an overall average annual price increase for affected sales customers of 8.8%. The Company also requested that the Board authorize the Company to implement the statewide factor approved by the Board in Docket No. EX00020091 in connection with the Universal Service Fund ("USF") Permanent Program and the Lifeline program; and approve the effectiveness of such price changes as of September 1, 2003.

On July 16, 2003, the Board issued an Order in Docket No. EX00020091 ("July 16 Order"), pursuant to which gas utilities were directed to implement, on an interim basis, tariffs that include the statewide after-tax USF factor of \$0.002452 per therm and the statewide after-tax Lifeline factor of \$0.005348 per therm effective August 1, 2003. The implementation of the resulting total after-tax USF/Lifeline factor of \$0.0078 per therm represented an overall increase from the rates then in effect of approximately 0.78%, or \$.78 per month for a typical residential sales service customer using 100 therms per month.

A public hearing in these proceedings was held on August 12, 2003 in Freehold Township, New Jersey. The public hearing was preceded by notices in newspapers of general circulation throughout the Company's service territory.

On August 18, 2003, NJNG, Division of Ratepayer Advocate (the "Ratepayer Advocate") and Board Staff (the "Parties"), the only parties to these proceedings, entered into a Stipulation that provided for a provisional increase in the Company's GCR factor, within its BGSS rate, applicable to residential and small commercial customers to \$0.3801 per therm on an after-tax basis. The Parties also recommended a decrease in the WNC to \$0.0000 per therm.

On September 5, 2003, by Decision and Order Approving Stipulation for Provisional Rates, the Board found that the referenced Stipulation was reasonable and in the public interest and that the rates set forth in the Stipulation should be made provisionally effective September 1, 2003,

² On April 23, 2003, the Company made its filing in BPU Docket No. GR03040318 in which, among other things, the Company proposed to reduce its WNC rate from \$0.0184 to \$0.0000 per therm on an after-tax basis, effective October 1, 2003, as a result of the projected WNC recovery status after consideration of the estimated WNC calculation for the 2002-2003 Winter Period. The Board Order dated November 13, 2003 made that request final.

subject to refund with interest, pending the Board's final decision in these matters. The Board further authorized the Company to use the USF/Lifeline rates, as set forth in the Board's July 16 Order, as part of the Company's Societal Benefits Charge. Finally, the Board ordered that the Company's petition in this proceeding remain at the OAL for full review and an Initial Decision, and for subsequent review by the Board for a Final Decision.

ALJ Douglas H. Hurd conducted a pre-hearing conference on October 14, 2003, with representatives of all Parties to this proceeding in attendance.

Following an extensive written discovery process with the Company and several discovery and settlement conferences, the Parties executed a settlement agreement ("Settlement") dated January 9, 2004.

The following are the salient provisions of the Settlement:

1. The provisional BGSS rates approved and made effective with the Board's Order of September 5, 2003 shall be considered final, and this docketed matter shall be closed.
2. All issues not otherwise specifically addressed herein relating to recoverable gas costs for the period beginning January 1, 2002 through August 31, 2003 are resolved. However, the Parties reserve all their rights with respect to the reasonableness and prudence of NJNG's acquiring new long-term supplies of natural gas or obtaining significant supplies of additional interstate transportation or storage capacity, which reservation of rights is consistent with the Board's Order issued in BPU Audit Nos. A-2826, et al, dated July 5, 1999.

On January 13, 2004, ALJ Hurd issued his Initial Decision approving the settlement agreement for this case. The ALJ found that the Parties voluntarily agreed to the settlement and that the settlement fully disposes of the issues in controversy and reserves the Parties' rights with respect to the reasonableness and prudence of NJNG's acquiring new long-term supplies of natural gas or obtaining significant supplies of additional interstate transportation or storage capacity.

DISCUSSION AND FINDINGS

The Board has reviewed the record in this proceeding including the Initial Decision and the Settlement. The Board HEREBY FINDS the Settlement to be in the public interest and the Company's previously approved provisional BGSS rates in this matter are now made final. Accordingly, the Board HEREBY ADOPTS the Initial Decision in its entirety and HEREBY INCORPORATES the terms of the settlement agreement as if fully set forth herein. The Company is HEREBY DIRECTED to file the appropriate tariff pages that conform to the terms and conditions of this Order within (10) business days from the Date of this Order.

The Company's gas costs will remain subject to audit by the Board of Public Utilities.

This Decision and Order shall not preclude nor prohibit the Board from taking any such actions deemed to be appropriate as a result of any such audit.

DATED: **2/3/04**

BOARD OF PUBLIC UTILITIES
BY:

SIGNED

JEANNE M. FOX
PRESIDENT

SIGNED

FREDERICK F. BUTLER
COMMISSIONER

SIGNED

CAROL J. MURPHY
COMMISSIONER

SIGNED

CONNIE O. HUGHES
COMMISSIONER

SIGNED

JACK ALTER
COMMISSIONER

ATTEST:

SIGNED

KRISTI IZZO
SECRETARY